



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

## **Financial Statements Audit Report**

# **Sequim Transportation Benefit District**

**Clallam County**

**For the period January 1, 2013 through December 31, 2013**

**Published December 29, 2014**

**Report No. 1013243**





## Washington State Auditor Troy Kelley

December 29, 2014

Council  
Sequim Transportation Benefit District  
Sequim, Washington

### Report on Financial Statements

Please find attached our report on the Sequim Transportation Benefit District's financial statements.

We are issuing this report in order to provide information on the Transportation Benefit District's financial condition.

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**Sequim Transportation Benefit District  
Clallam County  
January 1, 2013 through December 31, 2013**

Council  
Sequim Transportation Benefit District  
Sequim, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Sequim Transportation Benefit District, Clallam County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Transportation Benefit District's financial statements, and have issued our report thereon dated December 17, 2014.

We issued an unmodified opinion on the fair presentation of the Transportation Benefit District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the Transportation Benefit District using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the Transportation Benefit District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an

opinion on the effectiveness of the Transportation Benefit District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Transportation Benefit District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Transportation Benefit District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Transportation Benefit District's financial statements are free from material misstatement, we performed tests of the Transportation Benefit District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Transportation Benefit District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transportation Benefit District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public

record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

December 17, 2014

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Sequim Transportation Benefit District Clallam County January 1, 2013 through December 31, 2013**

Council  
Sequim Transportation Benefit District  
Sequim, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Sequim Transportation Benefit District, Clallam County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Transportation Benefit District's financial statements, as listed on page 10.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Transportation Benefit District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Transportation Benefit District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)**

As described in Note 1, the Sequim Transportation Benefit District has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Sequim Transportation Benefit District, for the year ended December 31, 2013, on the basis of accounting described in Note 1.

### **Basis for Adverse Opinion on U.S. GAAP**

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the Transportation Benefit District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

### **Adverse Opinion on U.S. GAAP**

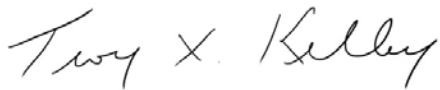
The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States



of America, the financial position of the Sequim Transportation Benefit District, as of December 31, 2013, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2014 on our consideration of the Transportation Benefit District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transportation Benefit District’s internal control over financial reporting and compliance.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

December 17, 2014

## **FINANCIAL SECTION**

**Sequim Transportation Benefit District  
Clallam County  
January 1, 2013 through December 31, 2013**

### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2013  
Notes to Financial Statements – 2013

## FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		001 TBD Entity
<b>Beginning Cash and Investments</b>		
30810	Beg Fund Bal-Reserved	291,552
30880	Beg Fund Bal-Unreserved	0
38800/58800	Prior Period Adjustments, net	0
<b>Operating Revenues</b>		
310	Taxes	532,577
330	Intergovernmental Revenues	0
360	Miscellaneous Revenues	7,902
Total Operating Revenues:		540,479
<b>Operating Expenditures</b>		
540	Transportation	585,678
Total Operating Expenditures:		585,678
Net Operating Increase (Decrease):		-45,199
<b>Nonoperating Revenues</b>		
370, 380, 395, 398	Other Financing Sources	0
391-393	Debt Proceeds	0
Total Nonoperating Revenues:		
<b>Nonoperating Expenditures</b>		
591-593	Debt Service	0
594-595	Capital Expenditures	0
Total Nonoperating Expenditures:		
Increase (Decrease) in Cash and Investments		-45,199
<b>Ending Cash and Investments</b>		
50810	End Fund Bal-Reserved	246,353
50880	End Fund Balance-Unreserved	0

The accompanying notes are an integral part of this Statement.

## Sequim Transportation Benefit District

### Notes to Financial Statements

2013

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Sequim Transportation Benefit District reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the Cash Basis Budgeting, Accounting and Reporting System (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The Sequim Transportation Benefit District was established as a quasi-municipal corporation, an independent taxing district, on July 14, 2008 in anticipation of the proposed ballot for TBD Sales Tax in the November 2008 (which failed by a small margin). The District is a governmental special purpose entity governed by a Board of Directors, created as a separate legal entity for the sole purpose of acquiring, constructing, improving, providing and funding transportation improvements within the District. Ballot measures were proposed and approved in November 2009 to authorize a sales and use tax of two-tenths of one percent (0.2%) to be collected within the District, effective April 1, 2010. The boundaries of the District are identical with the City of Sequim limits. The District operates under the laws of the state of Washington applicable to a Transportation Benefit District. The District uses cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

a. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The District accounted for all activity in 2013 in one fund which has a separate set of accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The District's resources are allocated to and accounted for in this fund based on its intended purpose. The following fund type is used by the District:

GOVERNMENTAL FUND TYPE:

General (Current Expense) Fund

This fund is the primary operating fund of the District. It accounts for all financial resources except those required or elected to be accounted for in another fund.

b. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

In accordance with state law the District also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

c. Budgets

The District adopts an annual budget for the TBD general fund. This budget is appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

The annual appropriated budget is adopted on the same basis of accounting as used for financial reporting. The appropriated and actual expenditures for the legally adopted budget is as follows for 2013:

Fund	Appropriated Amounts	Actual Expenditures	Variance
001	\$651,560	\$585,678	\$65,882

Budgeted amounts are authorized to be transferred between departments within any fund/object classes within departments, however, any revisions that alter the total expenditures of a fund must be approved by the District's governing body.

d. Cash

The District has an Interlocal agreement with the City of Sequim to make the most efficient use of public monies, to avoid duplication of effort and to coordinate efforts. As such, the City of Sequim manages the District's cash. Beginning and ending cash amounts are reported on the statements of fund resources and uses arising from cash transactions. The interest on these funds is prorated to various funds between the City and the District, based on ending fund balance.

e. Deposits

The District's deposits are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

f. Investments

See Investment Note No. 3

g. Capital Assets

The District has no capital assets. According to the Interlocal agreement between the District and the City of Sequim, streets and related transportation infrastructure preserved and maintained with District funds are and shall remain the property of the City of Sequim. Any expenditure on a long-lived item that costs over \$7,500 becomes an asset of the City of Sequim. These items are recorded as expenditures when purchased.

h. Compensated Absences

The District has no obligations related to compensated absences because the District has no employees and its officers are either City Council members serving in an ex officio capacity or are City employees designated to serve under the provisions of state law. According to the Interlocal agreement between the District and the City of Sequim, the City will provide all staff and necessary related support to the District.

i. Debt Service Requirements

The District incurred no long term debt in 2013 and has no long term debt as of December 31, 2013.

j. Risk Management

The District is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their

self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2013, 91 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and equipment breakdown insurance coverage. Equipment breakdown is included with the property reinsurance carrier and fidelity (crime) coverage is a stand-alone policy which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$10 million in both per occurrence and aggregate liability limits. For the first \$1 million, AWC RMSA pays out of its own funds all claims up to its Self-Insured Retention (SIR) of \$250,000 and, thereafter, purchases liability re-insurance through Berkley Public Entity of \$750,000. For the additional \$9 million in coverage limits, an excess liability policy is purchased from CV Starr. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services. AWC RMSA has a retention of \$50,000 and limits up to \$250 million. Since AWC RMSA is a cooperative program, there is joint liability among the participating members.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors which is comprised of elected officials of participating members.

I. Reserved Fund Balance

Effective for 2010 ending fund balances, the State Auditor's Office requires cash basis entities to classify fund balances as either reserved or unreserved. Reserved balances are the amounts of cash and investments not available due to the restrictions imposed on them by external parties (e.g., grantors, creditors, etc) and/or due to internal commitments. Internally committed resources are those with limitations imposed by the highest level of government (e.g., city council, board of directors) through a formal action (ordinance, resolution, etc.) The Revised Code of Washington (RCW 36.73) establishes restrictions on the use of the funds generated by Transportation Benefit Districts. Additionally, the governing body of the District imposed restrictions on the use of these funds by ordinance. All funds generated by the District are restricted to a) projects identified in the City of Sequim's Transportation Improvement Program, as adopted annually, b) model connectivity projects, c) sidewalk and ADA compliance and safety projects, d) street repair and maintenance for the structural integrity of the streets and for traffic control and safety; and e) other projects as necessary. Therefore, the ending fund balance of \$246,353 is reserved.

m. Material Change Policy

In the event a transportation improvement cost exceeds its original cost estimate by more than twenty percent (20%) as identified in the District's original finance plan, the governing body holds a public hearing to solicit comment from the public regarding how the cost change should be resolved. No such public hearings were required in 2013.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions and there have been no expenditures exceeding legal appropriations in any of the funds of the District.

NOTE 3 - INVESTMENTS

The District (and the City of Sequim through the Interlocal agreement) now maintains two investment accounts with US Bank. These investments are comprised of US government and agency securities, and municipal bonds. All of these investments are uninsured but held in Book Entry Form at the Cleveland Federal Reserve in the name of US bank in their fiduciary capacity for the benefit of the City and therefore not part of the bank's balance sheet, totally protected from bank creditors.

Investments are presented at their tax cost basis, as of December 31, 2013.

Cash and investments by type at December 31, 2013 are as follows:

<u>Type of Investment</u>	<u>Cash &amp; Investments</u>
Cash	\$240,139
Other Bank Held	101
L.G.I.P	653
US Government Securities	4,012
Municipal Bonds	1,448
Total	\$246,353

NOTE 4 – SALES TAX

In 2009 the citizens of Sequim voted to authorize a sales and use tax of two-tenths of one percent (.2%) to be collected within the District from all taxable retail sales in accordance with RCW 82.14.0455. The tax may be collected for a term of 10 years for the purpose of paying or financing costs of transportation improvement projects identified in the City's Transportation Improvement Plan (adopted by the District), sidewalk and street repair and improvements, and model connectivity and safety projects. These funds can only be used for those projects. The tax became effective April 1, 2010 and the District received its first tax distribution from the Washington State Department of Revenue in June 2010.

NOTE 5 – INTERLOCAL AGREEMENT

In 2010 the District entered into an Interlocal agreement with the City of Sequim in order to make the most efficient use of resources, to avoid duplication of effort and to coordinate efforts. The City of Sequim is empowered to construct, reconstruct, maintain and preserve city streets and other related public infrastructure. The District was constituted in accordance with state law to provide a source of funding for the maintenance and preservation of streets and related infrastructure within the City limits. According to the Interlocal agreement between the District and the City of Sequim, the City will provide all staff and necessary related support to the District. Services provided by the City of Sequim may be those provided by the City Attorney, the City Clerk, the City's Finance Director and other employees of the City that serve the District including but not limited to the preparation of the annual work plan, reporting, advertising, design, contracting, construction management, accounting and any and all other actual charges agreed upon and in accordance with law and ordinance. In consideration of the benefits derived by the City, overhead charges such as utilities, information technology, office supplies and equipment are considered a contribution of the City to the parties' joint goals and objectives.

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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